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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

# ANNUAL AUDITED REPORT FORM X-17A-5 PART III

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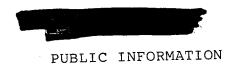
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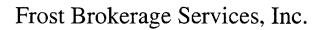
Information Required of I	Brokers and Dealers I ge Act of 1934 and R		and the second s	
REPORT FOR THE PERIOD BEGINNING _	06/01/01 MM/DD/YY	AND ENDING	05/31/02	
A. REC	SISTRANT IDENTIF	ICATION		
NAME OF BROKER-DEALER:				
Frost Brokerage Services, Inc.			OFFICIAL USE ONLY	
ADDRESS OF PRINCIPAL PLACE OF BUSI	Box No.)	FIRM ID. NO.		
100 W. Houston Street				
	(No. and Street)			
San Antonio	Texas	78205		
(City)	(State)		(Zip Code)	
NAME AND TELEPHONE NUMBER OF PE	RSON TO CONTACT IN	REGARD TO THIS	S REPORT	
Karen Banks	Karen Banks		210-220-4128	
		(	Area Code — Telephone No.)	
B. ACC	DUNTANT IDENTIF	ICATION		
INDEPENDENT PUBLIC ACCOUNTANT wh	ose opinion is contained i	in this Report*		
Ernst & Young LLP	- -	, .		
(Name	— if individual, state last, first, mid	die name)		
1900 Frost-Bank Tower	San Antonio,	Texas	78205	
(Address)	(City)	(State)	PROCESSED	
CHECK ONE:  EX Certified Public Accountant	•		AUG 1 6 2002	
☐ Public Accountant ☐ Accountant not resident in United S	tates or any of its possess	sions.	THOMSON FINANCIAL	
	FOR OFFICIAL USE ONLY			

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

# OATH OR AFFIRMATION

	Frost Brokerage Services, Inc.	, as of
	May 31 KW 2002 are true and correct. I fu	orther swear (or affirm) that neither the company
nor any	y partner, proprietor, principal officer or director has any proprieta	• •
a custor	omer, except as follows:	
		·
_		
-		
		Law Bank
		Signature
		President
		Title
	aria II beench	*****
-/-	Notary Rublic	
/ j	GLORIA T.  Notary Public, I	
	My Commission Exp	
<b>T</b> L:	Company (about all and limble bound)	oooooood
	port** contains (check all applicable boxes):  Facing page.	
	Statement of Financial Condition.	•
	Statement of Income (Loss).	
	Statement of Changes in Financial Condition.	•
	Statement of Changes in Stockholders' Equity or Partners' or Sol	
	Statement of Changes in Liabilities Subordinated to Claims of Cr	editors.
	Computation of Net Capital	Dula 16a2 2
	Computation for Determination of Reserve Requirements Pursuan Information Relating to the Possession or control Requirements U	
	A Reconciliation, including appropriate explanation, of the Comp	
	Computation for Determination of the Reserve Requirements Und	•
	A Reconciliation between the audited and unaudited Statements of F	
	solidation.	
(I) X	An Oath or Affirmation.	
(m).	A copy of the SIPC Supplemental Report.	ne <sup>4</sup> .
		to have existed since the date of the previous audit.





Statements of Financial Condition

Years Ended May 31, 2002 and 2001 with Report of Independent Auditors





# Statements of Financial Condition

Years Ended May 31, 2002 and 2001

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Frost & Young LLP
Frost Bank Tower
Suite 1900
100 West Houston Street
San Antonio, Texas 78205-1457

# Report of Independent Auditors

Board of Directors Frost Brokerage Services, Inc.

We have audited the accompanying statements of financial condition of Frost Brokerage Services, Inc. (the Company) as of May 31, 2002 and 2001, and the related statements of income, stockholder's equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Frost Brokerage Services, Inc. at May 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the accompanying supplementary schedule and statement is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities and Exchange Commission. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

June 28, 2002



# Statements of Financial Condition

	May 31	
	2002	2001
Assets		
Cash	\$ 3,367	\$ 461,339
U.S. Treasury bills	10,770,334	7,961,258
Trading securities	_	347,735
Accrued income receivable	-	648
Commissions and other receivables	551,494	87,408
Annuity commission receivable	179,075	42,375
Prepaid insurance and other assets	32,249	26,092
Total assets	\$ 11,536,519	\$ 8,926,855
Liabilities and Stockholder's Equity		
Liabilities:	\$ 362	\$ 410
Accounts payable to affiliate  Profit sharing plan payable	\$ 362 70,834	\$ 410
Income taxes currently payable to	70,034	_
Frost National Bank	345,916	233,285
Total liabilities	417,112	233,695
2004	117,112	200,000
Stockholder's equity:		
Common stock, par value \$.01 per share;		
10,000 shares authorized, issued and		
outstanding	100	100
Additional paid-in capital	152,750	152,750
Retained earnings	10,966,557	8,540,310
Total stockholder's equity	11,119,407	8,693,160
Total liabilities and stockholder's equity	\$ 11,536,519	\$ 8,926,855

See accompanying notes.



#### Notes to Financial Statements

May 31, 2002 and 2001

#### 1. Significant Accounting Policies

Frost Brokerage Services, Inc. (the Company), a wholly owned subsidiary of Frost National Bank (FNB), is registered as a fully disclosed broker-dealer under the Securities Exchange Act of 1934. The Company is organized for the purpose of realizing capital appreciation for its customers through quality investments including stocks, bonds, mutual funds, and options.

The Company operates under a clearing agreement with National Financial Services Corporation (NFS), whereby NFS clears transactions for the Company's customers and carries the accounts of such customers on a fully disclosed basis as customers of NFS. The Company does not hold customer cash or securities in connection with such transactions.

Security transactions and related commission revenues and related expenses are recorded on the trade date.

Securities held for resale in anticipation of short-term market movements and U.S. Treasury bills are classified as trading securities and are carried at fair value with both net realized and unrealized gains and losses included in other income during the period. U.S. Treasury bills at May 31, 2002 and 2001 mature within one year of the balance sheet date.

FNB, a banking subsidiary of Cullen/Frost Bankers, Inc. (CFBI), pays substantially all operating expenses of the Company, as well as providing office space, furniture, and equipment. The Company reimburses FNB for certain operating expenses.

The Company's operations are included in the consolidated federal income tax return filed by CFBI using a calendar year-end. The Company's federal income tax provision is determined as if it filed a separate return using the consolidated federal income tax rate for CFBI (35% in 2002 and 2001), as this is the rate charged by CFBI to the Company.

Furniture and fixtures are stated on the basis of cost, net of accumulated depreciation. Depreciation is calculated by using the straight-line method with an estimated useful life of four years.



# Notes to Financial Statements (continued)

May 31, 2002 and 2001

#### 1. Significant Accounting Policies (continued)

#### Reclassifications

Certain reclassifications have been made to the 2001 financial statements to conform with the presentation in 2002.

#### 2. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### 3. U.S. Treasury Bills

At May 31, 2002 and 2001, the Company had a U.S. Treasury bill with a cost basis of \$57,463 and \$47,857, respectively, pledged to NFS for surety purposes. Interest earned on the pledged security is paid to the Company. The unrealized gain on the Company's entire U.S. Treasury bill portfolio for the years ended May 31, 2002 and 2001 was \$673 and \$1,172, respectively.

#### 4. Employee Benefit Plans

The Company, as a subsidiary of FNB, participates in the 401(k) Stock Purchase Plan for Employees of Cullen/Frost Bankers, Inc. and Its Affiliates (the 401(k) Plan). In addition, CFBI maintains the 1991 Thrift Stock Purchase Plan for Employees of Cullen/Frost Bankers, Inc. and Its Affiliates (the Thrift Plan). The Thrift Plan was adopted to offer to eligible employees whose participation in the 401(k) Plan is limited an alternative means of receiving comparable benefits. The above-mentioned plans cover substantially all eligible employees of the Company.

Under the provisions of the above-mentioned plans, employees may contribute certain percentages of their annual compensation, within Internal Revenue Service limitations, to these benefit plans. A portion of these contributions is matched by the Company. The Company's contributions to the above-mentioned plans for the years ended May 31, 2002 and 2001 were \$277,280 and \$190,830, respectively.



## Notes to Financial Statements (continued)

May 31, 2002 and 2001

#### 4. Employee Benefit Plans (continued)

CFBI has a defined benefit pension plan (the Plan) which extends to the Company. The Plan covers substantially all employees who have attained the age of 21 years with at least one year of service. No expenses or liability pertaining to the Plan are allocated to the Company from CFBI.

On January 1, 2002, CFBI adopted a deferred profit sharing plan, a contributory retirement plan which extends to the Company. Contributions will be made to individual eligible employee accounts based upon CFBI's fiscal-year profitability. Employee assets will be self-directed into a menu of investment options. The assets will be subject to vesting requirements and withdrawal restrictions. The Company's accrued contributions to the deferred profit sharing plan for the years ended May 31, 2002 and 2001 were \$70,834 and \$-0-, respectively.

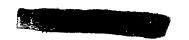
#### 5. Income Taxes

The Company records income taxes under Financial Accounting Standards Board Statement No. 109 using the liability method. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, if any, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Income tax expense consists of the following:

	Year Ended May 31		
	2002	2001	
Current:			
Federal	\$ 1,327,649	\$ 927,817	
State	39,388	55,438	
Income tax expense	\$ 1,367,037	\$ 983,255	

The Company has no deferred tax assets or liabilities at May 31, 2002 or 2001. The difference between the expected tax expense and income tax expense is due to state franchise tax expense.



## Notes to Financial Statements (continued)

May 31, 2002 and 2001

#### 6. Subordinated Liabilities

There were no liabilities subordinated to claims of general creditors at any time during the years ended May 31, 2002 and 2001.

#### 7. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission's uniform net capital rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange also provides that equity capital may not be withdrawn or cash dividends be paid if the resulting net capital ratio would exceed 10 to 1). At May 31, 2002, the Company had net capital of \$11,013,915, which was \$10,763,915 in excess of its required net capital of \$250,000. The Company's aggregate indebtedness to net capital ratio was .04 to 1.